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C O N F I D E N T I A L SECTION 01 OF 05 KUWAIT 000613

SIPDIS

FOR NEA/ARP

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TAGS: [ECON](#) [EFIN](#) [ETRD](#) [TIP](#) [KU](#)
SUBJECT: THE IMPORTANCE (AND FINANCIAL BENEFITS) OF BEING
KUWAITI

Classified By: DCM Alan G. Misenheimer for reasons 1.4 (b) and (d).

Summary

1. (C) For a small country with a population of approximately 3.2 million, Kuwait possesses tremendous wealth; according to the CIA World Fact Book, Kuwait has the world's sixth largest GDP per capita in terms of purchasing power. Kuwaiti citizens, an exclusive group that makes up about one third of Kuwait's overall population, enjoy an array of economic benefits courtesy of the petrostate's largesse. This system of government benefits is rooted in the belief that Kuwait's oil is a gift from God and the patrimony of the entire nation. Some local economists describe the production and export of Kuwait's oil as a liquidation of the nation's inherited assets. Hence, the wealth derived from the sale of Kuwait's oil should be distributed among all Kuwaitis. This distribution of oil wealth also forms a part of an implied social contract between the Kuwaiti citizenry (especially powerful merchant families) and the ruling Al Sabah family.

2. (C) Many of these benefits are government-sponsored entitlements, including guaranteed public sector jobs, subsidies, free services, and transfer payments. Other, less savory opportunities for easy financial gain stem from institutional corruption, including rampant bribes and kickbacks in public contracting, earnings from sponsoring expats for work visas without providing employment, and revenue earned from selling votes to well-financed politicians. The illicit economic activities listed are obviously problematic, but even legitimate, government-sanctioned benefits have the effect of obstructing important economic reforms that would benefit both the Kuwaiti economy and American companies. Kuwait's leadership has expressed the goal of diversifying the country's economy by returning to its mercantile roots, but the comforts and benefits currently provided by the petrostate make it exceedingly difficult for the Government to implement the structural reforms needed to realize such a vision. End Summary.

Public Sector Jobs

3. (SBU) Kuwaitis enjoy the option of taking a relatively well-paid, undemanding government job for life. About 95% of the Kuwaiti work force (both male and female) works in the public sector, which makes up about two-thirds of Kuwait's GDP. Though official working hours generally run from 7:30 a.m. to 2:30 p.m., in practice most Kuwaiti government employees work about three to four hours per day; others rarely, or never, show up but continue to receive a full paycheck. (Note: There are, of course, exceptions. The Kuwait Investment Authority is renowned for hand-picking and cultivating the cream-of-the-crop of intelligent and

ambitious young Kuwaitis. Within the oil sector, the most senior ranks of the oil sector are filled with hard working and highly professional managers and engineers, though many are now reaching retirement age. End note.) Official statistics released on May 27 placed the unemployment rate among Kuwaiti nationals at 5.5% percent, though reportedly only about one-third of those unemployed were actively seeking jobs. In contrast, Kuwaiti economist Jassem Al-Saadoun estimates that Kuwait's "hidden unemployment rate," which he defines as Kuwaitis who receive a paycheck but don't actually work, is as high as 50 percent. Many of these absentee public sector employees supplement their government income by operating small private sector businesses or speculating on the Kuwait Stock Exchange in their ample free time.

¶4. (U) The civil service pay scale is a two-tiered system with Kuwaitis receiving higher compensation than expatriates for doing the same job. The starting civil service pay package for a high school graduate includes a KD 165 (about USD 620) monthly salary, a social allowance of KD 147 (about USD 550) for a bachelor or KD 222 (about USD 830) for a married person, and KD 50 (about USD 190) for each child. For a married high school graduate with two kids, this amounts to a starting salary of USD 25,215 (untaxed). For a university graduate, the total starting salary amounts to USD 34,260. Military salaries are reportedly about 30 percent higher than civil service salaries. Salaries and wages (including social security payments) account for about half of government spending. In order to compensate for rising costs of living, the GOK recently announced a monthly pay raise of KD 120 (USD 450) for Kuwaitis and KD 50 (USD 187)

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for non-Kuwaitis to take effect this year. In fact, the debate over public sector salaries was a major preoccupation of the previous parliament and generated huge public interest, while other legislative issues (e.g. labor reform, privatization, counter-terrorism law) languished.

Social security

¶5. (U) Kuwaitis become eligible for social security payments after 20 years of employment (public, private, and/or self-employment) for men, and after 15 years for women, regardless of the employee's age. This policy reportedly encourages many Kuwaitis to forego higher education so they can enter the work force and start their social security clock as early as possible. The minimum social security payment is 65 percent of final salary for those who terminate their employment at the 20/15-year threshold. Payments max out at 95 percent of final salary for those who continue working for thirty years. Of course, a number of Kuwaitis "retire" after as a little as 20 years of working for the government or private sector and then go on to take another private sector job while they continue to receive social security payments. Additionally, as the various government ministries occasionally need to reduce or refresh their staffing, they offer generous social security supplements to those employees who volunteer to retire early. In some exceptional circumstances, as was recently the case in a policy designed to encourage senior civil servants at the under secretary-level to retire, total social security payments (including supplements and bonuses) actually exceeded the employees' final working salaries.

No taxes

¶6. (U) Kuwaitis pay no personal income tax, sales tax, capital gains tax, or corporate tax. Foreign companies pay a flat tax of fifteen percent on income. The government derives virtually all of its revenue from hydrocarbons and investment income.

Government-sponsored housing

¶7. (SBU) Each Kuwaiti household is entitled to a free 400 square meter plot and a 70,000 KD (USD 260,000) home loan to be repaid over fifty years at zero interest. According to officials at the Public Authority for Housing, fraud is rampant, and many Kuwaiti households are effectively able to register for more than one such home loan. Due to delays in building new housing complexes, the current wait-time for a new home averages about twelve years; in the meantime, the government subsidizes monthly rent payments.

Marriage bonus

¶8. (U) Kuwaiti couples receive a KD 2000 (USD 7500) grant and an additional KD 2000 (USD 7500) zero-interest loan when they marry. This applies only when the groom is a Kuwaiti citizen, regardless of whether he marries a Kuwaiti or non-Kuwaiti woman. Kuwaiti women who marry non-Kuwaiti men are not eligible.

Free primary, secondary, and tertiary education

¶9. (U) Many urban Kuwaitis opt to pay to send their children to private schools, especially international schools; but public elementary, high school, and university education are free up to the Bachelors Degree level. University students also receive a monthly stipend of KD 100 (USD 375). For Kuwaitis enrolled in universities abroad, the GOK pays all educational expenses plus the monthly stipend.

Free health care

¶10. (SBU) Kuwaitis receive free treatment and prescriptions in public hospitals, clinics, and pharmacies which are staffed mostly by foreign doctors. The quality of medical treatment available in Kuwait is generally good, but for cases that a government medical panel decides cannot be adequately treated in Kuwait, Kuwaitis are also entitled to foreign medical treatment. For these cases, which are generally sent to Europe or the U.S., the government pays all medical costs, all travel costs for the patient and

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accompanying relatives, and per diem. Predictably, this system is riddled with fraud and corruption, and the Health Ministry perennially claims to be reforming and/or downsizing it.

Subsidized electricity and water

¶11. (SBU) Although Kuwaitis are charged a nominal fee for utilities, the government is prohibited by law from shutting off water or electricity to any residence owned by a Kuwaiti citizen. Bills are thus ignored with impunity (except by expatriates, who, according to a recent edict can, at least in theory, be prevented from leaving the country if their accounts are not fully paid up).

Subsidized fuel

¶12. (U) Customers currently pay 85 cents per gallon for gasoline at the pump. This subsidy is universal and applies to all residents of Kuwait.

Food subsidies

¶13. (U) The government heavily subsidizes the prices of staples such as rice, sugar, flour, bread, powdered milk,

cooking oils and lentils. Every Kuwaiti family is issued a government ration card that enables them to receive a monthly ration of subsidized staples from designated distribution centers or cooperatives. Prices of staples at these cooperatives are around 25 percent of market value.

Occasional Amiri grants

¶14. (U) These are one-off transfer payments. From time to time, when government surpluses are especially high, the Amir announces that he will distribute a lump-sum payment (analogous to a dividend) to every Kuwaiti citizen. The last of these, which provided KD 200 (USD 750) to every adult citizen, was in 2007.

Investment in the rapidly inflating stock exchange

¶15. (SBU) Trading on the Kuwait Stock Exchange (KSE) was initially open only to Kuwaiti citizens but has now been extended to all residents. The KSE, along with the local real estate market, has been one of the main beneficiaries of the abundant liquidity generated by high oil revenues in recent years. It is the second most active stock exchange in the region with 191 companies listed. However, since the government has yet to appoint a strong and independent Capital Markets Authority to regulate the KSE, insider trading is rampant, transparency and accounting standards are lacking, and a number of listed companies exist only on paper and hold no real assets. The upshot is that insiders are able to generate extraordinary returns. Average Kuwaitis with relatively limited means will also soon be able to benefit as, in a couple of pending public offerings, the government will issue free shares in newly established and privatized companies to any Kuwaiti citizen who applies. Comprised almost exclusively of local companies, the KSE has been largely insulated from the effects of the subprime crisis. As of the beginning of May, the skyrocketing KSE index was already up twenty percent from its 2007 close, but little of this rise seems to be supported by market fundamentals.

Investment in local real estate market

¶16. (SBU) Like the KSE, Kuwait's real estate market has soaked up much of the liquidity produced by high oil prices; and like the growth in asset values on the KSE, this probably represents a bubble. According to Tandeem real estate, prices for commercial land in downtown Kuwait are reaching USD 60,000 per square meter, and residential land values are reaching USD 1 million for a 500 square meter plot. Rental prices have increased by fifty percent over the past two to three years as the overall population has grown at an annual rate over six percent. Although the government owns over ninety percent of land in Kuwait, most of the land in high demand in the densely populated, developed area around Kuwait City and along the coast is privately-owned. Many of these prime plots remain undeveloped as a significant proportion of

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investors hold them for purely speculative purposes. This includes the previous site of the U.S. Embassy, which is owned by Bahraini interests.

Agency for foreign companies

¶17. (SBU) Although new laws passed in recent years have established that foreign companies are no longer legally required to have a local agent in many sectors, the reality is that without an influential Kuwaiti agent, foreign companies have a difficult time achieving success in Kuwait's relatively closed and complex business environment. Agents are thus able to demand exorbitant fees and commissions

depending on the extent of their connections to the business and government elite.

Public sector contracts

¶18. (C) Much of the government's windfall oil revenue trickles down to private citizens through public contracting, which institutionally favors Kuwaiti contractors over foreign companies. The sclerotic and corruption-ridden government contracting system ensures that the juiciest contracts are awarded to those with the most political and financial influence, usually companies owned by elite merchant families with close connections to Members of Parliament. There are frequent allegations of corruption in the awarding of public contracts to private companies as influential developers, contractors, and commercial agents use bribery and wasta (connections) either to win contracts for themselves or to persuade the State Audit Bureau or Central Tenders Committee to prevent contracts from being awarded to their commercial and political rivals.

Possible forgiveness of consumer debt

¶19. (SBU) An additional indirect source of income for many Kuwaitis would be the passage of proposed legislation for the forgiveness of private Kuwaiti consumer debt. This proposal, which understandably enjoys strong and widespread public support, has been the hottest issue of debate among Members of Parliament over the past year. The government has consistently rejected the proposal, but the enthusiasm for such legislation shown by many opposition MPs shows no signs of diminishing. Proponents have clothed this extremely expensive initiative in nationalist rhetoric, citing a precedent in GOK coverage of citizens' personal expenses during the 1990-91 Iraqi occupation, and insisting that debt forgiveness for Kuwaitis must precede any move to reschedule or forgive Saddam-era Iraqi debt to the GOK.

Income from sponsoring expats

¶20. (C) Expatriates are required to have a local sponsor to obtain a work visa in Kuwait. As the local economy has exploded in recent years, attracting a greater number of immigrant workers (8.6% growth in 2007), it has become more and more common for Kuwaitis with means to establish "paper companies" that do not actually employ any laborers but generate revenue for their owners by collecting exorbitant fees from would-be immigrant laborers to sponsor them for visas and keep them listed on the company payroll. These immigrants generally end up doing domestic labor or working off-the-books for local construction companies and other employers. This illicit activity constitutes a local technique for trafficking in persons.

Selling votes

¶21. (C) This last source of income is available to any Kuwaiti who registers to vote, regardless of his or her level of wasta. In Kuwait's May 17 general elections, some Kuwaiti parliamentary candidates were reportedly paying voters over KD 1000 (USD 3750) per individual vote. Vote buying is rumored to be widespread. With each voter able to choose four candidates and most households consisting of multiple registered voters, this amounted to a significant source of income for an unknown, but probably large number of Kuwaiti families this year.

Note on income distribution

¶22. (SBU) The lack of any tax collection from Kuwaiti citizens and companies means that the government has no reliable data on income distribution. However local economists put the Gini coefficient, which measures income disparity, in the upper 40s - equivalent to Mexico, China, or Malaysia. Though no Kuwaiti citizens are particularly poor in absolute terms, income and wealth are still highly concentrated among the major merchant families and the ruling Al Sabah family.

Comment

¶23. (C) The illicit economic activities listed above are obviously problematic, but even the legitimate, government-sanctioned benefits have the undesirable effect of obstructing important economic reforms. Many of our contacts in the highest echelons of government, academia, the private sector, and the oil sector decry the welfare state's stultifying effects on worker productivity and sustainable economic growth. They lament that as long as the majority of Kuwaitis short-sightedly enjoy living off the fat of the country's bloated and talent-agnostic public sector, and powerful and politically influential commercial elites have a strong vested interest in maintaining the status quo in Kuwait's commercial and public contracting landscape, reforms are unlikely to succeed. The inability to implement such reforms will continue to frustrate the government's stated goals of building a dynamic and entrepreneurial private sector; diversifying the economy away from slowly dwindling hydrocarbon resources; promoting investment in human capital; and opening Kuwait's markets and industries to foreign investment.

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